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**Report of the informal working group on Programme and Budget Committee-related issues**

# Report of the informal working group on Programme and Budget Committee-related issues

## Report by the Co-chairs

Further to decision IDB.45/Dec.7, paragraph (d), the present document provides information on the establishment and meetings of the informal working group on Programme and Budget Committee-related issues. Member States can access all relevant presentations and background documents provided to the working group through the UNIDO Member States extranet at extranet.unido.org. In light of the reporting deadline specified in the above decision, this document also requests an extension of the mandate of the working group.

## I. Background: Organization of the IWG

1. At its forty-fifth session in June 2017, the Industrial Development Board adopted decision IDB.45/Dec.7, which "Established an informal working group, without cost implications to address Programme and Budget Committee-related issues of the Organization to be convened by the President of the Industrial Development Board, which will report to the Programme and Budget Committee at its thirty-fourth session".

2. On 20 October 2017, the President of the Industrial Development Board, Her Excellency Ambassador Paulina Franceschi Navarro of Panama, convened the first meeting of the informal working group on Programme and Budget Committee-related issues (IWG). Participants agreed to nominate two co-chairs, one from countries of the Group of 77 and China, and one from members of the Western Europe and other Groups (WEOG) and States in List D.

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3. On 30 January 2018, IWG met for the second time to consider the nominations received by then. Mr. Moataz Khaled Aly Abdelhady of Egypt and Ms. Katharina Frey Bossoni of Switzerland were appointed as the two Co-chairs. The mandate of IWG was discussed, as was its proposed schedule and the topics it would consider. It was decided that the list of topics for future discussions would continue to be open to further additions/amendments by participants of the working group, as and when necessary. IWG also requested that the Secretariat provide:

(a) A legal opinion on whether the mandate of the working group was time-limited or open-ended;

(b) All relevant documentation three days prior to the meetings of the working group.

## II. Overview of meetings: dates and topics

4. Further to the two initial meetings, IWG held four substantive meetings as follows:

(a) 16 February, unutilized balances of appropriations (UBs);

(b) 8 March, UBs and programme cost recovery;

(c) 20 March scale of assessments and the collection of late payments;

(d) 17 April, UBs (follow-up discussion) and discussions about prolongation of IWG's mandate.

## III. Discussion on the mandate of IWG

5. At the second meeting of IWG, the question of the Group's mandate was raised. A legal opinion was presented on this issue to the third meeting. After discussing the matter further at the sixth meeting, participants agreed that the report to the thirty-fourth session of the Programme and Budget Committee should include a draft recommendation to the Board to extend IWG's mandate of reporting to the Committee, but in an open-ended manner, i.e. without limiting it to a specific session of the Committee.

## IV. Discussion on UBs

6. The Secretariat made a number of presentations on UBs. These covered such aspects as the definition of UBs, the difference between cash surpluses and late payments, the legal basis for UBs, and a historic overview of UBs in the last two bienniums.

7. Further to requests for more information, the Secretariat presented a table with four possible options for the handling of UBs in future:

(a) A permanent solution, including introducing accrual budgeting and provision for carry-over of UBs into the next budget period to implement regular budget activities that were not funded or delivered in the biennium in which UBs were created;

(b) The retention of UBs either in for regular budget activities or in the Major Capital Investment Fund (MCIF), allowing the resources to be used to implement approved programmes;

(c) An opt-out model where UBs would be retained for regular budget activities, unless the relevant Member State specified their use by the first quarter of the following budget period;

(d) A temporary option, where UBs could be retained for a specific purpose under regular budget activities, MCIF or other funds.

8. These were subsequently augmented by four additional options:

(a) Limiting the retention of UBs for one biennium, following which, any remaining balances would be applied against the assessment of the individual Member State concerned;

(b) Retaining the UBs to the MCIF, to ease the burden on the regular budget in terms of substantial capital investments. This could lead to potential reductions in the budget appropriations in following biennia and thus reduced assessments;

(c) Limiting the retention of UBs for under-implemented and/or deferred programme activities, allowing for the completion of these activities;

(d) Retaining the UBs in a "Reserve Account" to finance approved specific activities under the regular budget.

9. During the resulting discussions, the following points were raised:

(a) The need to differentiate between cash surplus and late payments was highlighted;

(b) A request was made for more information on how carried-over UBs could be used in the subsequent bienniums and what impact this would have (e.g. implementation gap);

(c) A call was made for additional options to be explored;

(d) The need was underlined to ensure that no perverse incentives are created, either for late payments or lax collection;

(e) There was a call request for further examples of how carried-over or retained UBs would be used;

(f) On the collection of late payments, it was noted that any future proposals for the treatment of UBs should incentivize the Secretariat to maintain the currently reasonable rate of collection.

10. Furthermore, the following positions were raised regarding any possible amendment to how UBs were dealt with:

(a) One Member State informed that their position was that "any automatism could only be agreed to [...], if the remainder of funds budgeted/paid as assessed contributions were credited towards assessed contributions in the following year(s), therefore reducing [the respective] contribution. These funds could not be used as voluntary contributions, grants, etc.";

(b) It was noted that any proposed changes should not hinder the delivery of services to any of the Member States;

(c) More information was requested on the possible use of the Working Capital Fund to facilitate an increase of approved budget implementation in a biennium and by replenishing the Fund through the cash surplus at the end of each year, or through late payments received for that biennium, and what this would mean for UBs;

(d) Member States requested that for future discussions, UBs be divided into cash surplus[1] and late payments,[2] and that the Secretariat provide possible ways of dealing with each of these separately;

(e) Participants were reminded that it was the prerogative of Member States to take a decision on these matters and that therefore the deliberations of the working group should aim at coming up with a concrete proposal on this matter.

## V. Full cost recovery

11. The Secretariat presented an overview of the current situation regarding UNIDO's recovery of support cost. It also highlighted the ongoing work of an internal taskforce on this issue. The Secretariat therefore undertook to report on the work of this taskforce, once its deliberations had concluded toward the fourth quarter of 2018.

12. Member States decided to postpone discussion of this topic until after the update on the work of the taskforce had been received.

## VI. Scale of assessments

13. The presentation delivered on the scale of assessments covered the regulatory framework underlying the calculation of the percentage share of UNIDO's regular budget which each Member State is due. As this calculation is based on the scale of assessments negotiated at the United Nations Headquarters in New York, the presentation also covered the coefficient used to adjusting this overall scale of assessments to UNIDO's membership.

14. Participants noted that both the background information and the presentation provided, demonstrated the complexity of the discussions on the scale of assessments in New York and that this topic was therefore felt to be beyond the scope of IWG.

## VII. Late payments

15. Regarding late payments of assessed contributions, further to analysis of the payments by Member States conducted by the Department of Finance, there is no evidence of patterns of deliberate late payments and after three years circa 98 per cent of payments are collected.

## VIII. Action required of the Committee

16. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

"The Industrial Development Board:

(a) Takes note of the information contained in document IDB.46/5;

(b) Thanks the informal working group on Programme and Budget Committee-related issues for its work to date, encourages all Member States to actively engage with the deliberations of the working group, and requests the working group to keep deliberating on the issue of unutilized balances of appropriations, with a view to producing a proposal on their treatment for the

[1] Cash surplus is the difference between the collected amount of cash from assessed contributions, including other income and expenditures (i.e. payments and outstanding commitments) at the end of the biennium.

[2] Late payments are assessed contributions payments received after the end of the biennium related to that biennium.



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consideration of the thirty-fifth session of the Programme and Budget Committee;

(c) Welcomes the work produced by the informal working group to date and decides to extend its mandate until it is decided to conclude its deliberations and requests its Co-chairs to continue reporting annually to the Board, through the Programme and Budget Committee."